



MINUTES
EXECUTIVE SESSION
June 23, 2005
8:00 AM
STATE HOUSE ROOM 233

I. Call to Order

The meeting was called to order by Jeff Heinzmann.

II. Roll Call

Ryan Kitchell, Jeff Heinzmann, Tim Berry and Judy Rhodes were present. Jeff Heinzmann reported to the Committee that John Lentz had submitted his official resignation this week and that the State Board of Finance was in process of selecting a replacement.

III. Finalist Presentations – Investment Consultant Services

A. Capital Cities

Joe Bill Wiley, Bill Mauger, and Chris Welker presented for Capital Cities. Joe Bill Wiley opened the presentation with introduction to the Capital Cities Team, resources that the team uses and their experience solely with non-profit Investment Plans like Indiana Deferred Compensation.

Bill Mauger presented Capital Cities evaluation and overview of the Indiana Deferred Compensation Plan's Investment Options, including areas that warranted attention. Capital Cities identified its view of potential ways to improve the makeup of the Lifestyle portfolios, recommending a structure they believe would allow for better lifestyle fund construction.

Tim Berry asked if all actions suggested in Capital Cities presentation were included in its fee as proposed. Joe Bill Wiley responded that the \$60,000.00 dollar fee is all inclusive. He did note that in the case of exceptional projects Capital Cities may negotiate an additional fee, but did not see any indicators that such a project was likely in the near future.

Tim Berry asked who the Committee could expect to see in attendance of meetings. Joe Bill Wiley state that there would always be a principal and or himself.

Tim Berry asked Chris Welker what he saw his roll with the Indiana Stable Value Fund to be considering his history with the fund (Chris used to work at Delaware Investment Advisors and in that position participated in Delaware's quarterly report to the Committee). Chris Welker stated that it is Capital Cities' job as consultant to consult on all aspects of the plan, and to complete their own due diligence. Joe Bill Wiley further added that it was Capital Cities' role may include assisting the Manager with the report. He then complimented the Indiana Stable Value Fund on its construction and performance.

Judy Rhodes asked if Capital Cities wished to make comments with respect to past investment option searches by the Committee. Bill Mauger then gave a presentation on how Capital Cities conducts searches. This prompted some discussion concerning the "Buy Indiana" initiative. Capital Cities is aware of the initiative and would endeavor to include Indiana managers in any searches when feasible.

Jeff Heinzmann asked how Capital Cities handles "Watch Lists". Bill Mauger gave a brief presentation of criteria for watch list and how they manage any watch list fund.

Jeff Heinzmann asked whether Capital Cities had reviewed Indiana Deferred Compensation Plan's Investment Policy Statement and if they had any comments on it. Bill Mauger stated that they had reviewed it in general terms for content and that it addressed the major issues that should be included in such a statement, but that they had not had the opportunity yet to review it in great detail. Chris Welker stated that the Investment Policy Statement seemed to have a propensity to rely upon numeric triggers, which can lead to angst with the Committee when not necessary – that an evaluation must go beyond the numbers to understand the relative performance of a fund to its peers both as a simple peer ranking and in actual performance, as well as an understanding of the drivers of that performance and whether there are issues with fund management, etc.

Joe Bill Wiley continued the presentation looking at long and short term evaluation. Summarizing where Capital Cities believes action would be appropriate and where further inquiry and attention should be focused on an ongoing basis. Suggested actions were highlighted on page 18 of the presentation.

The Committee thanked Capital Cities for their presentation.

B. New England Pension Consultants

Steven Charlton and David Burt presented for New England Pension Consultants. Steven Charlton began by giving history and introduction of the firm which included consultants and clients. Jeff Heinzmann asked who will be representing NEPC. Steven Charlton stated that David Burt would be the lead, but that the Committee would see him as well. He went on to give more description of how NEPC is staffed. In addition if IDCC were involved in a project than the Committee would also work with research staff. Dave Burt highlighted that NEPC does work in a team format providing a knowledgeable team person available at all times.

Steven Charlton continued with presentation in the area of managing the DC plan. Jeff Heinzmann pointed out that Steven Charlton had mentioned Brown and asked him to expand on the problems with Brown as he sees it. Steven Charlton stated that Brown had performed great up to a couple of years ago. It now seems that the market place is moving away from that type of fund, but that Brown is not a candidate for replacement at this time because they have not strayed from their strategy, but rather its strategy is just not favored by the markets at this time. Dave Burt explained that NEPC does not typically recommend fund replacement. NEPC tries to understand the market and the fund style.

Jeff Heinzmann asked how this style of management fits into a plan like Hoosier S.T.A.R.T.® Dave Burt stated that NEPC has to be pragmatic about its evaluations of particular funds and whether the fund performance, while lagging through a particular period, is going to turn around. He cautioned against firing a fund in order to pull in the latest winner in a particular investment style group. Steve Charlton also pointed out that they look at a fund's ability to defend itself in a down turn.

Dave Burt continued with presentation covering NEPC's Defined Contribution Philosophy. Dave Burton explained that studies indicate most participants are overwhelmed with investment choice. Ryan Kitchell asked if NEPC would recommend alternative investments like real estate and if they had ever seen anything like that in a plan like Hoosier S.T.A.R.T.® Dave Burton stated that he had, but in plans more sophisticated and that NEPC believed in it as an investment but not for a participant driven plan.

Tim Berry asked NEPC that as a "proactive" style of managing what recommendations would they make after reviewing Hoosier S.T.A.R.T.® Steven Charlton stated that the largest number of assets were in the Indiana Stable Value Fund and that they would recommend more communications with participants. They would recommend looking at Domini – evaluating how the fund stands on its own. Dave Burton stated that NEPC would prefer more control over asset allocation with created portfolios rather than self-directed participant purchases.

The Committee thanked NEPC for their presentation.

C. Segal Advisors

Frank Picarelli presented for Segal Advisors. Frank Picarelli gave an overview including Segal's and his history and background and specifically their work with 457 plans.

Judy Rhodes asked what Segal Advisors saw as the top issues with Hoosier S.T.A.R.T.® in the next 3-6 months? Frank Picarelli stated that Segal would review all fund options and that this could be accomplished by June 30, providing a complete report to the Committee by August of this year. It would show the strengths and weaknesses, identifying any changes necessary. They would then begin searches while simultaneously reviewing the Investment Policy Statement. A formal schedule would be set in place to review quarterly reports. All this would be done quickly and aggressively.

Judy Rhodes asked if whether based upon what he had access to he saw any issues needing immediate attention. Frank Picarelli stated that it was a good solid menu of investment options, but that perhaps Brown should be looked at.

Jeff Heinzmann asked what Segal would recommend with the Lifestyle Funds and how they are currently allocated? Frank Picarelli stated that Committee and provider customized approach the plan currently takes was preferred rather than buying a lifestyle fund from an investment manager, which is typically more expensive.

Jeff Heinzmann inquired about who the Committee could expect to see at meetings? Frank Picarelli stated that Segal's approach is to bring out the team, but that the Committee would always see him, the consultant, and not a salesman.

Ryan Kitchell inquired how Hoosier S.T.A.R.T.® compared to other similar plans? Frank Picarelli stated that they would recommend having a good look at the Indiana Stable Value Fund and number of field representatives to see if Hoosier S.T.A.R.T.® is competitive. If they see there is some deficiency they would have a look at it. Frank Picarelli recommended contacting the State of New Hampshire retirement plan for a recommendation.

Judy Rhodes requested an explanation of how funds are put on watch lists. Frank Picarelli stated their approach is more specific than numeric, being quantitatively driven.

The Committee thanked Frank Picarelli for his presentation.

II. Adjournment

The Executive Meeting was adjourned by consent at 10:55 a.m.